

## Message Text

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ACTION EB-07

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TO AMEMBASSY ROME

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C O N F I D E N T I A L MILAN 1720

E.O. 11652: GDS

TAGS: EIND, ELAB, IT

SUBJECT: SPRAGUE/ACREAS DECIDES TO LEAVE ITALY

REF: MILAN 1137

1. SUMMARY. SPRAGUE-CREAS EUROPEAN PRESIDENT TREMBLAY TOLD US JULY 21 COMPANY HAS MADE DECISION TO LEAVE ITALY. ITALIAN COURT HAS JUST ACCEPTED FIRM'S PETITION FOR CONCORDATO PREVENTIVO (TYPE OF LIQUIDATION) STATUS. THIS IS PROBABLY BEST SOLUTION UNDER CIRCUMSTANCES. UNDER THIS ARRANGEMENT COMPANY WILL BE SOLD OFF AT PRICE WHICH WILL COVER WORKERS' SALARIES, TAXES AND FORTY PERCENT OF WHAT IS OWED CREDITORS. PROSPECTIVE BUYER IS CARLO GAVAZZI. END SUMMARY.

2. GERALD V. TREMBLAY, EUROPEAN PRESIDENT (IN GENEVA) FOR SPRAGUE-CREAS (OWNED BY SPRAGUE ELECTRIC COMPANY, N. ADAMS, MASSACHUSETTS), CALLED ON EXECUTIVE OFFICER JULY 21 TO BRING CONSULATE UP TO DATE ON SPRAGUE'S ITALIAN SITUATION. COMPANY'S MILAN PLANT HAS SUFFERED FINANCIAL AND ALABOR PROBLEMS OVER SEVERAL YEAR PERIOD, SITUATION WHICH BROKE INTO NEWSPAPERS IN MAY OF THIS YEAR WHEN SPRAGUE WORKERS ACCUSED MANAGEMENT OF ATTEMPTING TO CUT AND RUN WITHOUT PAYING ITALIAN

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WORKERS AND CREDITORS. AFTER LESS THAN SUCCESSFUL

NEGOTIATIONS (RECOUNTED IN REFTEL, MANAGEMENT REACHED TENUOUS AGREEMENT WITH UNIONS TO CUT WORK FORCE SUBSTANTIALLY BUT CONTINUE PRODUCTION (OF CONDENSERS) ON TRIAL BASIS. AGREEMENT, TREMBLAY TOLD US AT THAT TIME, COULD BE ABBROGATED BY MANAGEMENT AT WILL, AT WHICH TIME COMPANY WOULD GO IT IS THIS FOR WHICH COMPANY HAS PETITIONED AND WHICH COURT GRANTED JULY 27.

3. PRESENT ARRANGEMENT MEANS CREAS (WORD "SPRAGUE" HAS BEEN DROPPED FROM NAME OF MILAN FIRM) WILL SELL ITS MILAN OPERATION EN BLOC. (TREMBLAY HAD AT FIRST RESISTED THIS SOLUTION AS MOVE THAT WOULD BENEFIT COMPETITORS AT SPRAGUE-CREAS EXPENSE.) TREMBLAY SAID JULY 21 THAT HE AND LIQUIDATOR HAD TALKED TO SEVERAL PROSPECTIVE BUYERS BUT WITHOUT SUCCESS. (LIQUIDATOR IS APPOINTED BY COURT TO SEE THAT LIQUIDATION PROCEEDS ACCORDING TO LAW. HE MUST KEEP COURT APPRISED OF MOVES COMPANY MAKES. COURT, IN TURN, MUST AGREE BEFORE COMPANY CAN BE SOLD.) LIQUIDATOR TOLD US JULY 28, HOWEVER, THAT LIKELIHOOD NOW EXISTS OF PURCHASE BY CARLO GAVAZZI S.P.A. OF MILAN.

4. CONCORDATO PREVENTIVO IS TYPE OF LIQUIDATION WHICH DIFFERS FROM BANKRUPTCY IN THAT PRIVILEGED CREDITORS (WORKERS, SOCIAL SECURITY, AND GOVERNMENT TAX COLLECTORS) ARE PAID IN FULL WHILE SUPPLIERS ARE ASSURED FORTY PERCENT OF WHAT IS OWED THEM. LIQUIDATOR TOLD US THAT COURT ALMOST DENIED CREAS CONCORDATO PREVENTIVO STATUS BECAUSE, ALTHOUGH FIRM'S BOOK VALUE EXCEEDS VALUE OF ABOVE-MENTIONED CLAIMS, COURT DOUBTED THAT ASSETS WOULD ACTUALLY FETCH THAT MUCH FROM PROSPECTIVE BUYER.

5. LIQUIDATOR TOLD US THAT BOTH MANAGEMENT AND WORKERS ARE PLEASED WITH COURT'S ACCEPTANCE OF CONCORDATO PREVENTIVO. WORKERS FOR THEIR PART WILL BE PAID

IN FULL AND MAY, OF COURSE, CONTINUE TO HOLD THEIR JOBS DEPENDING ON WHO BUYS FACTORY AND WHETHER NEW CONFIDENTIAL

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OWNER CONTINUES WITH SAME PRODUCT LINES. MANAGEMENT, FOR ITS PART, IS SPARED SHAME OF GOING BANKRUPT.

6. LIQUIDATOR TOLD US CREAS WOULD CONTINUE TO OPERATE THROUGH SEPTEMBER WITH ORDERS AND RAW MATERIALS FROM SPRAGUE-CREAS' FRENCH PLANT.

7. LIQUIDATOR WAS ELATED OVER COURT'S AGREEMENT TO

DISPOSE OF PLANT VIA CONCORDATO PREVENTIVO. WE,  
TOO, FEEL THAT THIS IS BEST ROUTE FOR ALL CONCERNED.  
AMERICAN MANAGEMENT, WHICH HAS FOR SOME TIME BEEN  
FED UP WITH ITALIAN UNIONS AND APPEARS TO HAVE BEEN  
CONTEMPLATING LEAVING ITALY UNDER LESS THAN LEGAL  
CIRCUMSTANCES (REFTEL), IS NOW DEPARTING IN LEGAL  
AND HONORABLE WAY. WORKERS, FOR THEIR PART, WILL BE  
PAID AND MAY EVEN RETAIN JOBS.PARSONS

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